

FIRST NATIONAL STORES

ANNUAL REPORT

FOR THE YEAR ENDING MARCH 27, 1965



FIRST NATIONAL STORES INC.

OFFICERS

ADRIAN O'KEEFFE, *President*
JOHN L. DONOVAN, *Vice-President*
TIMOTHY F. HARRIGAN, *Vice-President*
JOHN L. MACNEIL, *Vice-President*
EDMUND J. MURPHY, *Vice-President*
REUBEN KAPLAN, *Treasurer*
WILLIAM A. RYAN, *Secretary and Clerk*

DIRECTORS

RALPH F. BURKARD
RICHARD C. EVARTS
BYRON M. FLEMMING
REUBEN KAPLAN
JOHN L. MACNEIL
EDMUND J. MURPHY
ADRIAN O'KEEFFE
BERNARD M. O'KEEFFE
WILLIAM A. RYAN

EXECUTIVE COMMITTEE

JOHN L. MACNEIL
EDMUND J. MURPHY
ADRIAN O'KEEFFE

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

Somerville, Massachusetts, June 1, 1965

Sales for the fiscal year which ended March 27, 1965 amounted to \$706,669,843 compared to \$723,402,174 in the prior fiscal year, a decrease of 2.3%.

Net earnings after taxes, including a special credit of \$888,390, were \$6,448,420, equal to \$3.93 a share. For the preceding year earnings were \$7,103,042 or \$4.33 a share.

Dividends totaled \$2.50 per share, as in the preceding year, and consisted of four quarterly dividends of 50 cents a share and a special year-end dividend of 50 cents.

The following is a brief summary of our operations:

	For the Fiscal Year Ending <i>March 27, 1965 March 28, 1964</i>	
Retail Store Sales	\$706,669,843	\$723,402,174
Net earnings after taxes (includes special credit in 1965)	\$ 6,448,420	\$ 7,103,042
Per share of common stock (on average number of shares outstanding for the year) (includes special credit of 54 cents in 1965)	\$ 3.93	\$ 4.33
Net working capital (current assets less current liabilities) . . .	\$ 34,964,630	\$ 29,897,830
Fixed or property assets (less depreciation)	\$ 62,916,166	\$ 66,259,494
Stockholders' equity (net worth)	\$ 97,906,943	\$ 95,570,261

Included in this report are charts showing the results of our operations for prior years. The chart on earnings per share gives effect, for all years, to the 2 for 1 stock split in 1951.

Net capital expenditures for fixed assets totaled \$7,668,742. Long-term debt was reduced to \$6,665,000 from \$7,733,000, a decrease of \$1,068,000. The Company maintained a strong financial condition with working capital of \$34,964,630 compared to \$29,897,830 a year ago. The ratio of current assets to current liabilities at year end was 2.40 to 1 as compared to 1.95 to 1 in the prior year. Stockholders' equity was \$97,906,943, or \$59.74 a share as against \$58.30 a share at March 28, 1964.

Nineteen new stores were opened for business during the year and twenty were closed. Of those that were closed, ten were supermarkets and ten were small, self-service grocery stores. Substantial remodeling or enlargement took place in twenty-seven stores. At year end the Company was operating six hundred stores, five hundred and eight of which were supermarkets.

Food retailing in the area we serve was characterized by aggressive price competition and continuous promotional activity throughout the year. These factors and the opening of many competitive food discount stores affected sales and earnings. Wage rates were again substantially increased by our union agreements and, despite our vigorous cost control program, the effect of the decline in sales could not be offset by lower total expenses.

Our merchandising practices have been under constant review and we are now testing a variety of new programs in a number of stores. Some of these stores give trading stamps, others do not. Our aim is to determine the methods most effective in increasing sales. In common with many of the larger retailers, we continue to issue trading stamps in most of our stores. Our merchandising policy is one of flexibility and will be geared in each division of the business to consumer response to our programs.

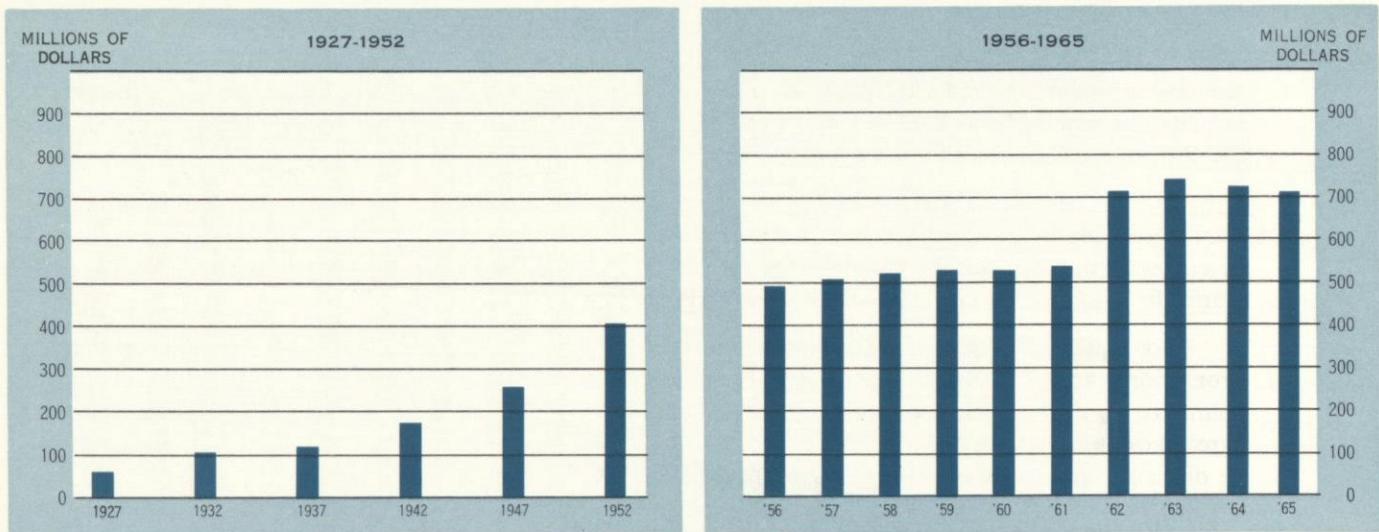
During the year the Company liquidated its two dairy manufacturing subsidiaries, Evangeline Milk Company and Casco Cheese Company, which were located in Wisconsin. For many years these operations were profitable and provided our stores with high-quality evaporated milk and cheese products. Declining consumer use of evaporated milk and availability of the product at recently developed sources of supply closer to our distribution centers, with resultant savings in transportation costs, made it desirable to discontinue our own production. Because the cheese company had always operated as a supplement to the evaporated milk plant, using the same raw milk product, it was decided to sell both of the plants while a profit could still be realized. The liquidation resulted in a special credit to earnings for the year.

In the current year approximately twenty new stores will be opened. Remodeling is planned for a number of stores. The Company has the capacity to handle a larger volume of business in many of its present locations and special emphasis will be placed on sales development programs for these stores. At the same time we shall continue to search for expansion possibilities which would be beneficial to the Company.

In meeting the challenge and opportunity of the present year, we are well equipped with material resources. Our financial position is excellent. Our stores are attractive and largely modern. Our distribution centers are efficient. Our products and values are among the best. On the human side we have a capable and dedicated organization. We believe that these underlying strengths will be of great value to us in the months and years ahead.

ADRIAN O'KEEFFE,
President

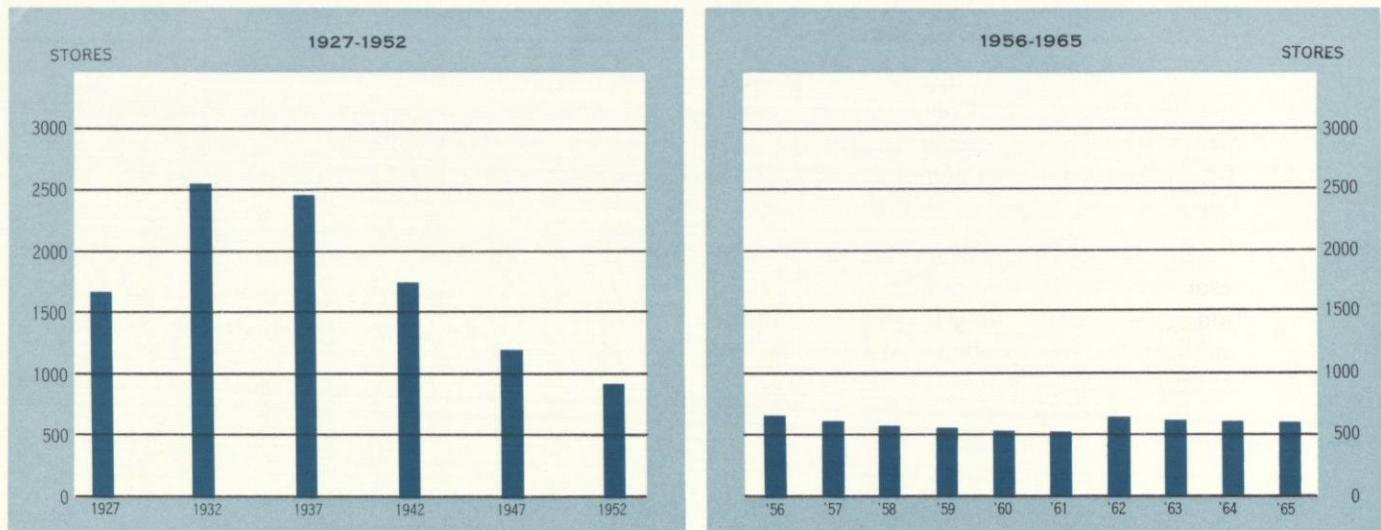
SALES



Retail Stores Sales — Fiscal Years

1927	\$ 59,038,304	1934	\$105,812,781	1941	\$142,680,921	1948	\$315,915,554	1954	\$442,180,165	1960	\$525,350,950
1928	64,445,962	1935	111,323,463	1942	174,378,932	1949	354,444,614	1955	470,628,572	1961	536,485,553
1929	75,884,639	1936	119,575,417	1943	187,839,592	1950	344,171,022	1956	491,667,908	1962	711,303,869
1930	107,635,216	1937	120,682,961	1944	164,924,978	1951	371,853,140	1957	507,361,437	1963	746,088,986
1931	108,196,686	1938	124,294,617	1945	170,236,678	1952	406,773,153	1958	521,494,993	1964	723,402,174
1932	107,634,383	1939	124,222,955	1946	182,131,241	1953	424,521,672	1959	531,521,108	1965	706,669,843
1933	100,892,947	1940	131,041,157	1947	256,506,910						

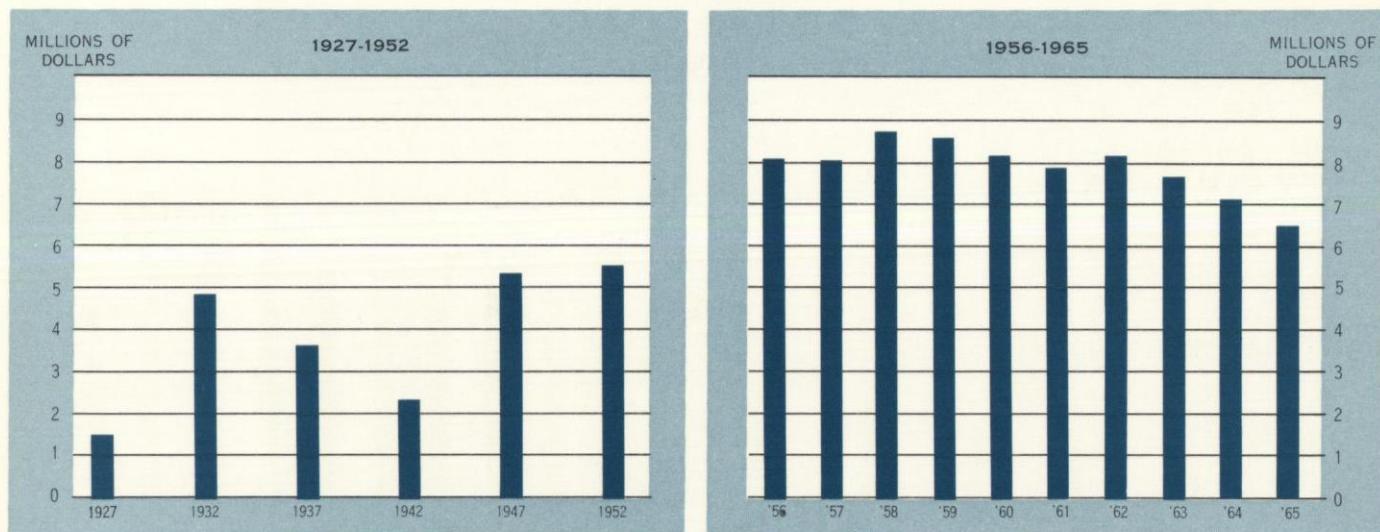
STORES



Stores — Fiscal Years

1927	1681	1934	2653	1941	1923	1948	1150	1954	761	1960	534
1928	1717	1935	2623	1942	1748	1949	1083	1955	702	1961	516
1929	2002	1936	2556	1943	1585	1950	1033	1956	661	1962	632
1930	2549	1937	2473	1944	1463	1951	979	1957	607	1963	610
1931	2548	1938	2350	1945	1340	1952	922	1958	575	1964	601
1932	2546	1939	2244	1946	1236	1953	847	1959	543	1965	600
1933	2705	1940	2137	1947	1201						

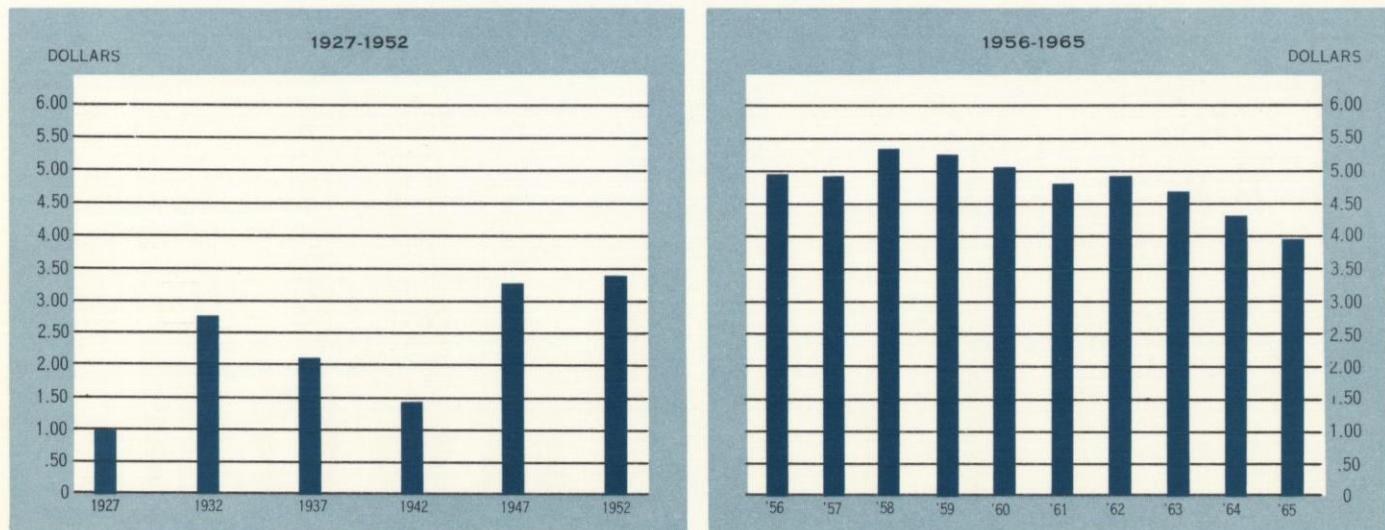
NET EARNINGS
(AFTER APPROPRIATIONS)



Net Earnings — Fiscal Years

1927	\$1,492,193	1934	\$4,394,830	1941	\$2,508,719	1948	\$5,629,705	1954	\$6,830,629	1960	\$8,222,725
1928	1,593,358	1935	3,433,504	1942	2,380,294	1949	5,905,880	1955	7,968,619	1961	7,858,961
1929	2,904,884	1936	3,163,329	1943	2,465,079	1950	6,997,980	1956	8,071,326	1962	8,172,116
1930	4,773,446	1937	3,647,001	1944	2,235,104	1951	6,134,530	1957	8,039,041	1963	7,788,116
1931	4,479,108	1938	2,705,191	1945	2,294,604	1952	5,571,415	1958	8,799,277	1964	7,103,042
1932	4,825,611	1939	2,774,366	1946	2,885,555	1953	6,742,051	1959	8,649,288	1965	6,448,420
1933	4,220,099	1940	2,739,074	1947	5,357,235						

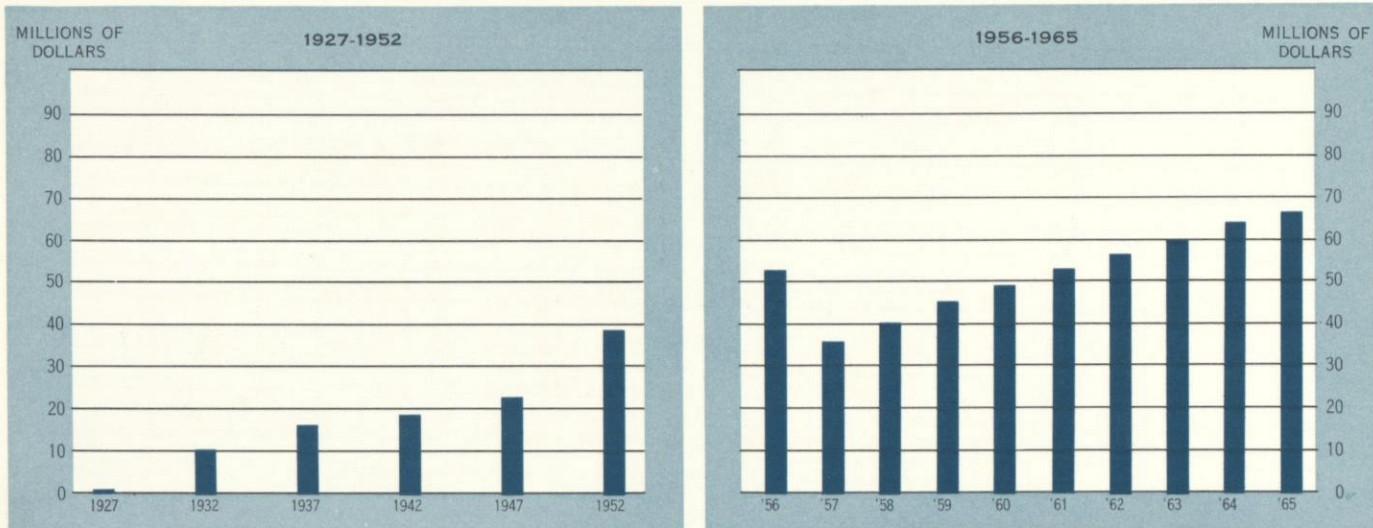
PER SHARE COMMON EARNINGS
(AFTER APPROPRIATIONS)
ON SHARES OUTSTANDING AT END OF YEAR



Per Share Common — Fiscal Years

1927	\$0.96	1934	\$2.48	1941	\$1.53	1948	\$3.43	1954	\$4.17	1960	\$5.02
1928	1.04	1935	1.95	1942	1.45	1949	3.61	1955	4.86	1961	4.80
1929	2.04	1936	1.82	1943	1.51	1950	4.27	1956	4.93	1962	4.98
1930	2.69	1937	2.12	1944	1.36	1951	3.74	1957	4.91	1963	4.73
1931	2.52	1938	1.57	1945	1.40	1952	3.40	1958	5.37	1964	4.33
1932	2.76	1939	1.69	1946	1.76	1953	4.11	1959	5.28	1965	3.93
1933	2.39	1940	1.67	1947	3.27						

EARNINGS EMPLOYED IN THE BUSINESS
(APPROPRIATED AND UNAPPROPRIATED)

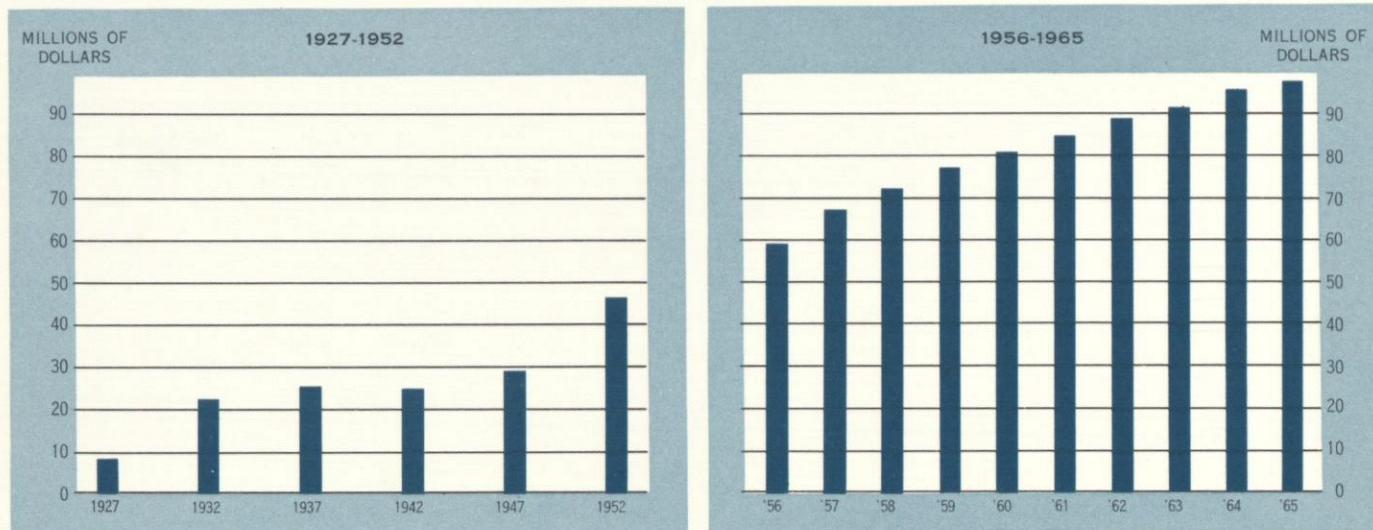


Earnings Employed in the Business — Fiscal Years

1927	\$ 1,996,375	1934	\$14,213,494	1941	\$18,572,964	1948	\$29,189,624	1954	\$44,954,164	1960	\$49,856,023
1928	2,238,303	1935	15,121,448	1942	18,889,476	1949	34,350,171	1955	48,993,652	1961	53,622,139
1929	3,987,782	1936	16,062,827	1943	19,308,135	1950	38,483,159	1956	53,135,847	1962	57,682,580
1930	6,369,726	1937	16,670,118	1944	19,496,819	1951	41,752,697	1957	36,463,268*	1963	61,370,653
1931	8,371,910	1938	16,688,036	1945	19,745,003	1952	39,604,479	1958	41,169,700	1964	64,377,458
1932	10,816,321	1939	17,423,131	1946	20,334,138	1953	41,807,095	1959	45,726,143	1965	66,728,368
1933	12,666,672	1940	18,112,565	1947	23,235,669						

* Transferred \$25,000,000 to Common Stock Account

STOCKHOLDERS' EQUITY
(NET WORTH)



Stockholders' Equity — Fiscal Years

1927	\$ 8,723,782	1934	\$26,190,916	1941	\$25,293,286	1948	\$35,925,903	1954	\$51,690,443	1960	\$81,276,726
1928	8,965,710	1935	24,820,470	1942	25,625,755	1949	41,086,450	1955	55,729,931	1961	85,042,842
1929	11,724,410	1936	25,761,849	1943	26,044,414	1950	45,219,438	1956	59,872,126	1962	89,328,856
1930	18,347,148	1937	26,369,140	1944	26,233,098	1951	48,488,976	1957	67,883,971	1963	92,580,628
1931	20,349,333	1938	23,746,089	1945	26,481,282	1952	46,340,758	1958	72,590,403	1964	95,570,261
1932	22,793,743	1939	24,216,168	1946	27,070,417	1953	48,543,374	1959	77,146,846	1965	97,906,943
1933	24,644,049	1940	24,874,883	1947	29,971,948						

FIRST NATIONAL STORES INC.

BALANCE SHEET

ASSETS

	MARCH 27 1965	MARCH 28 1964
Current assets:		
Cash	\$ 19,827,467	\$ 19,315,904
Accounts receivable	3,898,944	4,173,869
Inventories, on last-in, first-out cost basis, which is below market	36,258,643	38,012,489
Total current assets	<u>\$ 59,985,054</u>	<u>\$ 61,502,262</u>
Fixed assets, at cost (excluding fully-depreciated assets):		
Land	\$ 8,009,555	\$ 8,063,828
Buildings owned	35,023,382	35,675,905
Store fixtures, leased property improvements, machinery and equipment	90,244,441	89,044,909
Automotive equipment	6,926,919	6,470,797
<i>Less — Depreciation</i>	<u>\$140,204,297</u>	<u>\$139,255,439</u>
	77,288,131	72,995,945
	<u>\$ 62,916,166</u>	<u>\$ 66,259,494</u>
Other assets and deferred charges:		
Investment in and advances to wholly-owned subsidiary companies, at cost (represented by underlying net assets of \$140,653 in 1965, \$1,069,960 in 1964)	\$ 60,500	\$ 133,500
Prepaid insurance and other deferred expenses	5,445,975	5,894,467
Miscellaneous	1,184,672	1,117,970
	<u>\$ 6,691,147</u>	<u>\$ 7,145,937</u>
	<u>\$129,592,367</u>	<u>\$134,907,693</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: As of March 28, 1964 options to purchase 37,275 shares of the company's common stock were held by certain officers and key employees of the company and its subsidiaries. During the year, options for 575 shares terminated. At March 27, 1965 options for 36,700 shares were outstanding at prices ranging from \$54.86 to \$64.25 per share, of which options for 27,225 shares were then exercisable. The options become exercisable in equal annual instalments over a four-year period beginning one year after the date granted. Under the terms of the plan as amended during the year to conform to the Revenue Act of 1964, additional options for 38,300 shares may be granted at prices no less than 100% of the fair market value of the common stock at the date of grant. Such options expire not more than five years after the date granted.

Note 2: In the loan agreement covering the 4.70% notes there are restrictions on the payment of cash dividends and the acquisition of the company's common stock. At March 27, 1965 the portion of earnings employed in the business available for such payments and acquisitions was approximately \$21,200,000.

FIRST NATIONAL STORES INC.

BALANCE SHEET

LIABILITIES

	MARCH 27 1965	MARCH 28 1964
Current liabilities:		
Accounts payable	\$ 14,089,107	\$ 20,154,158
Accrued expenses	8,211,325	8,264,318
Current portion of long-term debt	267,000	267,000
Federal income taxes	2,452,992	2,918,956
Total current liabilities	<u>\$ 25,020,424</u>	<u>\$ 31,604,432</u>
4.70% Notes, due in equal semiannual instalments, 1966 to 1978	<u>\$ 6,665,000</u>	<u>\$ 7,733,000</u>
Stockholders' equity:		
Common stock, without par value (Note 1):		
Authorized — 2,000,000 shares		
Issued — 1,655,268 shares	\$ 31,977,422	\$ 31,977,422
Earnings employed in the business (Note 2)	66,728,368	64,377,458
	<u>\$ 98,705,790</u>	<u>\$ 96,354,880</u>
Less — Issued common stock held in treasury — 16,364 shares in 1965, 16,064 in 1964, at cost	798,847	784,619
Total stockholders' equity	<u>\$ 97,906,943</u>	<u>\$ 95,570,261</u>
Lease commitments (Note 3)	<u>\$129,592,367</u>	<u>\$134,907,693</u>

Note 3: At March 27, 1965 the company had commitments under 576 leases covering stores and warehouses. Minimum annual rental commitments under these leases, exclusive of taxes and other expenses and, in some cases, additional rentals based on percentage of sales, amount to approximately \$12,300,000. Of the aggregate annual rental commitment, \$11,800,000 applies to leases expiring prior to April 1, 1983 and most of the remainder to leases expiring thereafter but prior to 1987.

Note 4: In addition to depreciation provided on the cost of fixed assets in amounts which are permitted and used for federal income tax purposes, the company has continued to provide and charge earnings with accelerated depreciation on store buildings computed on a basis which is related to estimated fair rental values. Such accelerated depreciation, not currently deductible for federal income tax purposes, amounted to \$337,000 in 1965 and \$357,000 in 1964.

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS

YEAR ENDED
MARCH 27, 1965 MARCH 28, 1964

Income:

Retail store sales	\$706,669,843	\$723,402,174
Dividends received from wholly-owned subsidiary companies (net earnings for the year — \$37,083 in 1965, \$172,903 in 1964)	5,000	5,000
Net gain on disposal of fixed assets	355,016	212,057
Other income	274,992	164,403
	<u>\$707,304,851</u>	<u>\$723,783,634</u>

Costs and expenses:

Cost of sales, expenses, etc., exclusive of depreciation	\$686,263,472	\$699,229,423
Provision for depreciation of fixed assets (Note 4)	11,367,085	11,605,604
Interest expense	374,264	655,565
Provision for federal income taxes	3,740,000	5,190,000
	<u>\$701,744,821</u>	<u>\$716,680,592</u>
Net earnings	<u>\$ 5,560,030</u>	<u>\$ 7,103,042</u>
Special credit — Gain on liquidation of unconsolidated wholly-owned subsidiary companies	888,390	—
Net earnings and special credit	<u>\$ 6,448,420</u>	<u>\$ 7,103,042</u>

STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS

YEAR ENDED MARCH 27, 1965

Balance, March 28, 1964	\$ 64,377,458
Net earnings and special credit	<u>6,448,420</u>
	<u>\$ 70,825,878</u>
Cash dividends paid — \$2.50 per share	<u>4,097,510</u>
Balance, March 27, 1965	<u><u>\$ 66,728,368</u></u>

OPINION OF INDEPENDENT ACCOUNTANTS

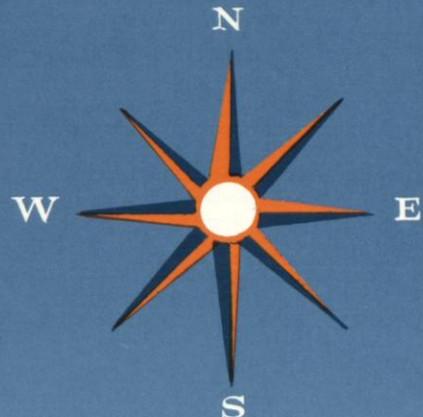
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF FIRST NATIONAL STORES INC.

In our opinion, the accompanying balance sheet and statements of earnings and earnings employed in the business present fairly the financial position of First National Stores Inc. at March 27, 1965 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Boston, Massachusetts
May 14, 1965

PRICE WATERHOUSE & CO.

Geographical Distribution
of
600 FIRST NATIONAL STORES



TRANSFER AGENTS: THE FIRST NATIONAL BANK OF BOSTON, BOSTON
CHEMICAL BANK NEW YORK TRUST COMPANY

REGISTRARS: STATE STREET BANK AND TRUST CO., BOSTON
BANKERS TRUST CO., NEW YORK, NEW YORK

